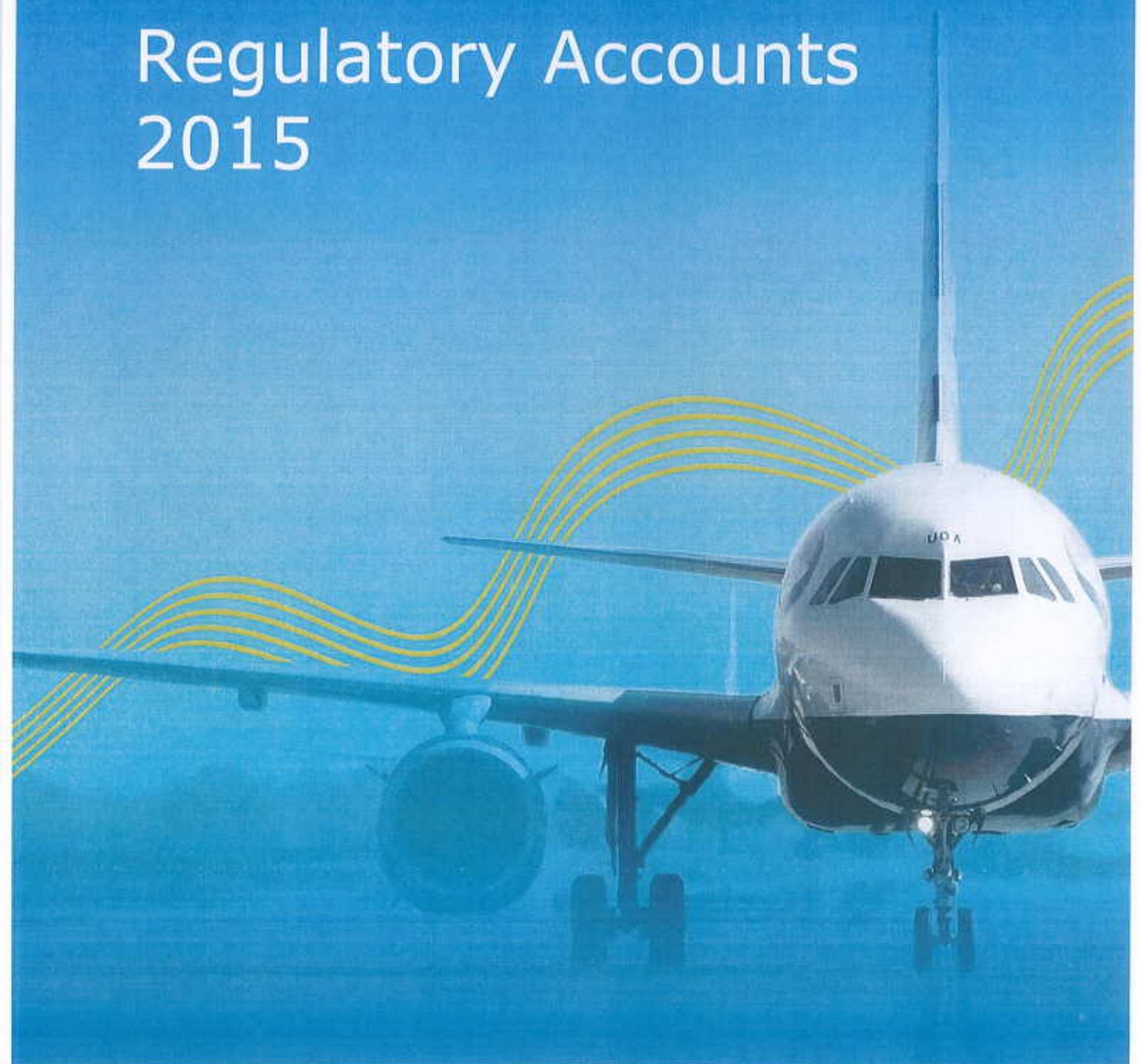


NATS

Performance
through Innovation

NATS (En Route) plc

Regulatory Accounts 2015



NATS (EN ROUTE) PLC
REGULATORY ACCOUNTS 2015

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The regulatory accounts were approved by the Board on 20 June 2016 and signed on its behalf by

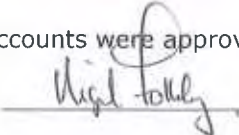
Finance Director  Nigel Fotherby

TABLE 1
INITIAL STAFFING LEVELS
BY AIRSPACE CLASSIFICATION

Table with 2 columns: Airspace Classification, Staffing Level. The table content is extremely faint and illegible.

1. INTRODUCTION

- 1.1 The regulatory accounts are to be drawn up on a calendar year basis, in accordance with the requirements of NERL's Licence in effect on 1 January 2015. This aligns with European regulatory reporting for Reference Period 2 (RP2: calendar years 2015 to 2019). Until RP2, NERL prepared its regulatory accounts in line with its financial year end date of 31 March. The last audited regulatory accounts were drawn up to 31 March 2015.
- 1.2 For the purpose of prior year comparators for the performance statements, the values have been derived by pro rating the previous financial years (i.e. 75% of financial year 2014/15 plus 25% of financial year 2013/14).

2. PURPOSE OF THE REGULATORY ACCOUNTS

2.1 Purpose of Regulatory accounts

The purpose of the regulatory accounts, as set out in the Licence and the Regulatory Accounting Guidelines is to make available such regulatory accounting information as will:

- (a) enable the CAA and the public to assess the financial position of NERL and the financial performance of the UK Air Traffic Services Business ("UKATS") and the En route (Oceanic) Business ("Oceanic") on a consistent basis, distinct from each other and its affiliate or related undertakings;
- (b) assist the CAA to assess NERL's compliance with the Licence;
- (c) assist the CAA and the public to assess performance against the assumptions underlying the current price control;
- (d) assist the CAA, the European Commission and the Performance Review Board to assess UKATS performance against the assumptions underlying the UK-Ireland Functional Airspace Block (FAB) Performance Plan for RP2 and CAA to assess Oceanic performance against the assumptions underlying the regulatory settlement for RP2; and
- (e) inform future price control reviews and National Performance Plans (NPP).

2.2 Basis of preparation

These accounts are prepared on the basis set out in the Regulatory Accounting Guidelines.

The regulatory accounts compare NERL's actual performance with the projections underlying the CAA's decision on the price controls, and are prepared on the basis used by the CAA when setting the price controls.

The UKATS price control for RP2 was set by the CAA in May 2014 as part of the UK-Ireland FAB Performance Plan and was approved by the European Commission on 2 March 2015.

The accounts are prepared using amounts derived from the statutory accounts which are prepared on the basis of International Financial Reporting Standards (IFRSs), details of which are given in the accounting policies note to the NERL statutory accounts. The Regulatory Accounting Guidelines require that these accounts do not reflect IAS23: Borrowing Costs.

Regulatory performance

The comparison of performance with the regulatory assumptions shows the derivation of UKATS and Oceanic regulatory profit and regulatory return, measured on a basis consistent with that used by the CAA when setting the price controls. The main differences compared with the statutory accounts basis are as follows:

- Operating costs are stated excluding accounting depreciation charges and include regulatory depreciation. The CAA's allowed regulatory depreciation is shown separately on the face of the regulatory performance statement. See pages 10-11.
- Operating costs include cash pension costs instead of accounting pension costs. The cash contributions to the NATS defined benefit pension scheme assumed by the CAA are shown separately in the regulatory performance statements.

- o Operating costs exclude any profit/loss on disposal of assets, as the disposal of assets is dealt with through the Regulatory Asset Base, rather than in the performance statement.
- o Operating costs exclude goodwill impairment charges, which are not remunerated through the regulatory settlement.

Movement in the regulatory asset base

The statements on the Regulatory Asset Bases (RABs) show the movements in the UKATS and Oceanic RABs. The closing RAB is the opening RAB plus capital expenditure less the CAA's regulatory depreciation and plus/minus movements in working capital, with adjustments for the pension contribution variance, and capitalised financing costs. Capital expenditure associated with external contracts funded outside of the regulatory settlement is excluded from the RABs.

Capital expenditure excludes IAS23: Borrowing Costs which is not applicable for the purposes of these accounts in accordance with the Regulatory Accounting Guidelines.

In order to report on a calendar year basis, the RAB at 1 January 2015 was calculated using the methodology required by the Regulatory Accounting Guidelines. The reconciliations to the RABs reported in the regulatory accounts drawn up to 31 March 2015 are set out on pages 24 & 25.

Traffic levels

A record of actual traffic levels is maintained, showing Total Service Units (TSUs) and Service Units (including civil exempt flights but excluding military and other exempt flights) for Eurocontrol, and chargeable flights for Oceanic, together with the traffic assumptions used by the CAA when setting the price control.

3. INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report to the Civil Aviation Authority ("CAA"), the Directors of NATS (En Route) Plc ("The Company") and NATS Holdings Limited ("NHL").

We have audited the Regulatory Accounts of NATS (En Route) plc for the year ended 31 December 2015 which comprise the comparison of performance with the regulatory assumptions on pages 10 and 11, the movements in Regulatory Asset Bases (RABs) on pages 20-21, the financial incentives on pages 26-27, the RAB adjustments and potential claw backs on pages 28-29, the record of the retail price index used in the regulatory calculations on page 31, the record of traffic levels compared with the regulatory assumptions on page 32, the schedule of costs exempt from cost sharing on pages 33-34 and the record of European funding to be offset in future periods on pages 35-36. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made solely to the Directors of the Company, NHL and the CAA ("the Regulator") in accordance with NERL's Air Traffic Services Licence ("the Licence"). Our audit work has been undertaken so that we might state to the Company, NHL and the Regulator those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for our audit work, for our report, or for the opinions we have formed to any other person other than those to whom we have agreed in writing to accept responsibility.

Basis of preparation

The Regulatory Accounts have been prepared under the historical and current cost conventions (as applicable) and in accordance with the Company's Regulatory licence, Regulatory Accounting Guidelines ("the RAGs") approved by the Regulator and the accounting policies set out in the statement of the basis of preparation. The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared wholly under the basis of International Financial Reporting Standards ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial position of a Company as shown in the financial statements prepared in accordance with the Companies Act 2006.

Respective responsibilities of the Regulator, Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the Regulatory Accounting Guidelines which have been drawn up by the Licensee in consultation with, and approval from the Regulator. It is not appropriate for the auditors or the Directors to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment. The Directors are responsible for preparing the Regulatory Accounts in accordance with the Regulatory Accounting Guidelines. These responsibilities are set out on page 4 of the Regulatory Accounting Guidelines.

Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion" below, and having regard to the guidance contained in Audit 05/03 "Reporting to Regulators of Regulated Entities".

We report to the Directors of the Company, NHL and the Regulator our opinion as to whether the Regulatory Accounts have been properly prepared in accordance with the Regulatory Accounting Guidelines, and on that basis fairly present the regulatory financial performance of the Company, analysed between each separate segment as defined in the Regulatory Accounting Guidelines, and the regulatory financial position of the Company. We also report you if in our opinion the Company has not kept proper accounting records

or if we have not received all the information and explanations, which we consider necessary for the purposes of our audit. We read any other information contained within the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

Basis of audit opinion

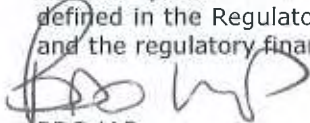
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts. It does not include an assessment of whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by the Regulatory Accounting Guidelines. Where the Regulatory Accounting Guidelines do not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the regulatory accounts are consistent with those used in the preparation of the statutory financial statements of NHL.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide use with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from the opinion on the statutory financial statements of the Company on which we reported on 20 June 2016, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory" audit) was made solely to the Company's members, as a body, in accordance with Chapter 3 of part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our statutory audit work, for our statutory audit report, or for the opinions we have formed in respect of that statutory audit.

Opinion

In our opinion the Regulatory Accounts have been properly prepared in accordance with the Regulatory Accounting Guidelines, and on that basis fairly present the regulatory financial performance of the Company, analysed between each separate segment as defined in the Regulatory Accounting Guidelines, for the year ended 31 December 2015, and the regulatory financial position of the Company at 31 December 2015.



BDO LLP

Chartered Accountants and Registered Auditors
Southampton, United Kingdom

20 June 2016

4. COMPARISON OF PERFORMANCE WITH THE REGULATORY ASSUMPTIONS

4.1 UK AIR TRAFFIC SERVICES (UKATS)

Table 1

Calendar Year - Outturn Prices (actual CPI inflation) £ million <i>B/(W) = Better / (Worse)</i>	2015			2014		
	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
Eurocontrol revenue	572.9	578.0	(5.1)	613.0	628.5	(15.4)
London Approach revenue	12.0	11.7	0.3	11.8	12.0	(0.2)
Price controlled revenue	584.9	589.7	(4.9)	624.8	640.4	(15.6)
Other revenue (Note 2)	66.3	64.0	2.4	65.4	62.6	2.8
Intercompany revenue	24.1	19.9	4.1	22.0	20.8	1.2
UKATS Revenue (including Intercompany revenue)	675.3	673.6	1.6	712.2	723.8	(11.6)
Operating costs (Note 3)	340.7	349.4	8.7	347.2	385.1	37.9
Defined Benefit Pension cash cost (Note 4)	73.6	73.6	-	77.5	77.5	-
DB Pension cash - controllable cost variance	(0.4)	-	0.4	-	-	-
Depreciation (Note 5)	186.4	186.4	-	181.9	181.9	-
Total costs	600.3	609.4	9.1	606.5	644.4	37.9
Regulatory profit	75.0	64.2	10.8	105.6	79.3	26.3
Capitalised Financing costs for the year (Note 6)	1.1	-	1.1	(4.3)	-	(4.3)
Regulatory return	76.1	64.2	11.9	101.3	79.3	22.0
Average Regulatory Asset Base (RAB)	1,137.4	1,104.6	32.8	1,154.2	1,172.9	(18.7)
Regulated rate of return (Note 7)	6.69%	5.81%	0.88%	8.78%	6.77%	2.01%

4.2 OCEANIC

Table 2

Calendar Year - Outturn Prices (actual CPI inflation) £ million <i>B/(W) = Better / (Worse)</i>	2015			2014		
	Actual	CAA's Projection	Variance B/(W)	Actual	CAA's Projection	Variance B/(W)
Shanwick Oceanic Control Area charges	28.4	26.2	2.3	26.8	27.3	(0.5)
Other revenue (Note 2)	0.5	0.5	0.0	0.6	0.6	(0.1)
Total revenue	29.0	26.7	2.3	27.4	27.9	(0.5)
Operating costs (Note 3)	15.3	16.0	0.6	14.6	15.2	0.6
Defined Benefit Pension cash cost (Note 4)	3.2	3.2	-	3.3	3.3	-
Depreciation (Note 5)	5.5	5.5	-	6.1	6.1	-
Total costs	24.1	24.7	0.6	24.0	24.6	0.6
Regulatory profit	4.9	1.9	3.0	3.4	3.3	0.1
Capitalised Financing costs for the year (Note 6)	0.2	-	0.2	0.2	-	0.2
Regulatory return	5.1	1.9	3.2	3.7	3.3	0.3
Average Regulatory Asset Base (RAB)	33.6	30.1	3.5	32.1	32.1	0.0
Regulated rate of return (Note 7)	15.17%	6.46%	8.71%	11.38%	10.32%	1.07%

Notes

- Performance is compared with the projection for RP2 as set out in the UK-Ireland FAB Performance Plan (amended, if relevant, by the Corrigendum issued in November 2014). The performance plan which is in outturn prices has been deflated to 2012 prices and uplifted by actual CPI inflation.
- Revenues:
 - In the case of UKATS, price controlled revenue is the revenue for Eurocontrol and London Approach, and Other revenue is other external income included within UKATS; it is analysed in Table 6. In the case of Oceanic, Other income is any income other than income from the Shanwick Oceanic Control Area charges.
 - The UKATS income line includes income relating to the Future Airspace Strategy Facilitation Fund (a programme overseen by the CAA) as part of the RP2 settlement. To the extent that funds are not expected to be utilised by the end of RP2, these will be rebated to customers in the following reference period. This is explained on pages 14 & 15 and a separate schedule is provided in Table 7.
 - The UKATS income line excludes income from customer funded capital projects, which are excluded from the RAB.
 - Eurocontrol revenue includes any service bonuses or penalties as set out in Section 6.

3. Operating costs:

- For the purposes of the price control, operating costs (which are derived from the statutory accounts and are on an accounting basis except where otherwise stated) are stated excluding accounting depreciation, accounting pension costs, and profit/loss on disposal of assets. The disposal of assets is dealt with through the Regulatory Asset Base (RAB), rather than in the performance statement. For pensions and depreciation, see notes 4 and 5 below.
- Operating costs include cash pension costs of the Defined Contribution (DC) scheme.
- Operating costs include significant contributions to several European research and development initiatives (any funding received for these programmes is included in other revenue and disclosed in Tables 8 and 9).
- Operating costs include charges from other group companies; these charges to NERL, from NATS Ltd and NATS (Services) Ltd, are detailed in the table below.

Table 3

Calendar Year - Outturn Prices	
£ million	2015
Charges from NATS Ltd	8.5
Charges from NATS (Services) Ltd	<u>18.0</u>
Total	<u>26.6</u>

- Operating costs are stated after deducting capitalised internal labour costs. The regulatory accounts will include a statement of the actual amount for each of UKATS and Oceanic, compared with the amounts assumed in the CAA projections. The amounts are shown in Table 4 below.

Table 4

Capitalised internal labour costs	2015	2016	2017	2018	2019
Calendar Year - Outturn Prices					
£ million					
CAA's projection (RP2 Assumptions)					
UK Air Traffic Services	48.2	51.8	49.9	39.9	35.5
Oceanic	1.5	0.4	0.1	0.1	0.1
Actual costs					
UK Air Traffic Services	46.9				
Oceanic	1.5				
Variance to NPP					
UK Air Traffic Services	(1.3)				
Oceanic	(0.0)				

4. CAA's assumed Defined Benefit (DB) scheme cash contributions are deducted:
 - UKATS DB pension scheme costs are determined in accordance with the European Charging Regulations. Differences (positive or negative) arising from unforeseen financial market conditions, changes in pension law and accounting rules are carried forward as Costs Exempt on a cumulative basis to be assessed for recovery in future reference periods.
 - Oceanic DB actual pension costs are compared with the RP2 regulatory estimated values and differences are added to /subtracted from the RAB.
5. The CAA's allowed regulatory depreciation is shown separately in the Tables 1 and 2. In the case of UKATS, the CAA's allowed depreciation comprises underlying depreciation and the CAA's backlog adjustment to depreciation.
6. Capitalised financing amounts for the year in respect of the capital expenditure variance and the pension contribution variance are added to the RAB to enable remuneration in future review periods. These financing amounts are added to the regulatory profit for the calculation of the regulatory return.
7. The rate of return in the CAA's projection column for the years in RP2 averages to the allowed rate of return over RP2. The CAA had allowed a pre-tax real cost of capital of 5.86% for RP2. The profile of allowed returns (allowing for re-investment and price profiling) for UKATS and Oceanic is shown in Table 5.

Table 5

	2015	2016	2017	2018	2019
UK Air Traffic Services	5.81%	5.80%	5.81%	5.79%	5.78%
Oceanic	6.46%	6.24%	5.75%	5.59%	3.94%

8. The amounts are stated in terms of average prices for the year. Hence, some of the figures are slightly different from those in Section 5 (the RAB) which are at year-end prices.
9. Any small differences in these schedules are due to rounding. Given the nature and purpose of these schedules, it is not considered appropriate to eliminate the rounding difference.

Analysis of UKATS Performance by European Regulatory Reporting Category

The table below analyses costs by their nature, as reported in the European Regulatory Reporting tables. These are presented in June and November to the European Commission Enlarged Committee as part of the following year's rate setting process for Eurocontrol and London Approach charges.

Table 6

Calendar Year - Outturn Prices (RP2 assumptions)													
£ million													
B/(W) = Better / (Worse)													
	2015 Actual				2015 NPP				2015 Variance B/(W)				
	Eurocontrol	London Approach	Other UKATS	Total UKATS	Eurocontrol	London Approach	Other UKATS	Total UKATS	Eurocontrol	London Approach	Other UKATS	Total UKATS	
Staff	245	5	40	289	248	5	36	289	3	(0)	(4)	(1)	
Other operating costs	104	2	17	123	115	2	17	134	11	0	(0)	10	
Depreciation	158	3	25	186	164	3	24	191	6	0	(1)	4	
Cost of capital	57	1	9	67	55	1	10	66	(2)	0	1	(1)	
Exceptional items	1	-	-	1	10	-	-	10	9	-	-	9	
Sub total	565	12	90	667	591	12	86	689	27	(0)	(5)	22	
Military adjustment	8	-	-	8	8	-	-	8	(1)	-	-	(1)	
Determined costs	573	12	90	675	599	12	86	697	26	(0)	(5)	21	

Notes

- Performance is compared with the projection for RP2 included in the UK-Ireland FAB Performance Plan as agreed by the European Commission on 2 March 2015. The UK-Ireland FAB Performance Plan sets out the plans for Eurocontrol and London Approach services. NERL's Licence also includes Other UKATS services.
- The NPP /Licence values above are stated using the NPP outturn inflation assumptions, as this is the basis used for unit rate pricing on an annual basis. The CAA's projections in the UKATS Performance Report (Table 1) uses actual inflation assumptions.
- The military adjustment enables the European regulatory reporting figures to be reported on a TSU basis, which includes military flights in civilian airspace. NERL's contractual arrangement with the Ministry of Defence provides for a different payment arrangement. The estimated value of this contract for the reference period is credited against determined costs, thereby reducing airspace charges for civil users. As the military flights are not separately recovered from the MoD, an adjustment is made to ensure civil airspace users are paying the appropriate unit rate.
- The FAS Facilitation Fund (Table 7) supports operating expenditure in relation to airspace strategy and is subject to governance under an independent FAS Steering Board comprising CAA and third party airline, airport and military representatives. Amounts are included in NERL's determined costs and accumulated over RP2. Any funds which are not utilised by the end of RP2 will be rebated to customers in the following reference period. As amounts are stated in outturn prices, adjustments are made to reflect:
 - The adjustment from Total Service Units to Service Units
 - Changes in assumed inflation rates
 - The impact of any traffic risk sharing

Table 7

UKATS FAS Facilitation Fund	2015	2016	2017	2018	2019	Total
Calendar Year - Outturn Prices						
£ million						
CAA's projection						
NERL Opex Fund	3.0	3.0	3.0	3.0	3.0	15.0
Small Gaps Fund	1.5	1.5	1.5	1.5	1.5	7.5
Total	4.5	4.5	4.5	4.5	4.5	22.5
Adjustment for TSUs	4.4					
Adjustment for Inflation (actual)	(0.1)					
Adjustment for Traffic risk sharing	0.0					
Adjusted values						
NERL Opex Fund	2.9					
Small Gaps Fund	1.4					
Total	4.3	0.0	0.0	0.0	0.0	0.0
Actual expenditure						
NERL Opex Fund	0.1					
Small Gaps Fund	0.1					
Total	0.2	0.0	0.0	0.0	0.0	0.0
Cumulative variance:	4.1	0.0	0.0	0.0	0.0	0.0
(positive values are carried forward)						

Analysis of Other UKATS Revenue

This statement presents a more detailed split of other revenue, including revenue from business permitted under Licence Condition 5.

Table 8

Calendar Year - Outturn Prices	
£ million	2015
North Sea Helicopters	8.7
MoD	46.2
<u>Licence Condition 5:</u>	
Consented services	2.6
Other contracts with the Crown	0.9
Contracts related to Functional Airspace Blocks	0.2
Other unregulated revenue - UKATS	<u>7.8</u>
Total	<u>66.3</u>
European Development Initiatives included above:	
Consented services	2.6
Contracts related to Functional Airspace Blocks	0.2
Other unregulated revenue	<u>2.1</u>
Total	<u>4.9</u>

Consented services are those where, under Condition 5 of the NERL Licence, NERL has sought a consent that has been granted by the CAA (see Table 10).

Table 9

Calendar Year - Outturn Prices	
£ million	2015
En Route (UK) Business	
- Eurocontrol	572.9
- London Approach	12.0
Sub-total	<u>584.9</u>
- Specified Services (North Sea Helis)	8.7
En Route (Oceanic) Business	<u>28.4</u>
Total	<u><u>622.0</u></u>
Unregulated revenue UKATS	7.8
Unregulated revenue Oceanic	<u>0.5</u>
Total	<u>8.4</u>
Unregulated revenue as % of total	1.3%
Allowed %	4.5%

The above analysis confirms that NERL is in compliance with Condition 5, paragraph 12 (a) (vi) of the NERL Licence in that its external turnover arising from any other business as defined in the Licence does not exceed 4.5% of the aggregate turnover of the En Route (UK) and En Route (Oceanic) Businesses as defined in the Licence.

The table below shows net costs relating to European Development Initiatives.

Table 10

Calendar Year - Outturn Prices		2015
£ million		
Consented services:		
SESAR Joint Undertaking	Income	2.6
	Operating costs	<u>(7.1)</u>
	Net cost	<u>(4.5)</u>
Contracts related to Functional Airspace Blocks:		
Borealis	Income	0.2
	Operating costs	<u>(0.3)</u>
	Net cost	<u>(0.1)</u>
Other unregulated revenue:		
EGNOS	Income	0.2
	Operating costs	<u>(0.2)</u>
	Net profit	<u>0.1</u>
SESAR Research Project	Income	(0.0)
	Operating costs	<u>(0.1)</u>
	Net cost	<u>(0.1)</u>
Deployment Manager	Income	1.5
	Operating costs	<u>(1.8)</u>
	Net cost	<u>(0.3)</u>
NATSNV/ESSP	Income	0.3
	Operating costs	<u>(0.4)</u>
	Net cost	<u>(0.0)</u>
TOTAL:		
	Income	4.9
	Operating costs	<u>(9.8)</u>
	Net cost	<u>(4.9)</u>
Note: any small differences are due to rounding		

The income above relates to grant funding and cost recoveries under arrangements with European organisations and Alliances.

NERL is a member of the SESAR Joint Undertaking performing research and development activities in support of the Single European Skies (SES) programme and receives partial grant funding in connection with the R&D projects it undertakes.

NERL is an alliance member of the Borealis Air Navigation Services (ANS) Alliance (comprising NERL and 8 other air navigation service providers) mainly covering Scandinavian and some Baltic ANSPs and is also a member of the SESAR Deployment Alliance (undertaking oversight of implementation activities in support of the SES programme which comprises airlines, air navigation service providers and airports members). In the latter NERL acts as a co-ordinator and receives funding for specific activities related to its function.

NERL provides remote monitoring services for the European Satellite Services Provider (ESSP) in which NATSNV, an affiliate, holds a 16.67% shareholding.

CAA'S RP2 Projections:

Table 11

Calendar Year - Outturn Prices (RP2 NPP assumed inflation)					
£000					
	2015	2016	2017	2018	2019
UKATS Regulatory Performance Statement (inc London Approach)					
Eurocontrol revenue (TSU basis)	598,801	597,515	598,642	589,585	579,007
Military TSU adjustment	-7,554	-7,385	-7,334	-7,096	-6,881
London Approach revenue	12,012	12,371	12,749	13,092	13,399
Other revenue	65,434	65,856	64,695	62,365	65,124
Intercompany revenue	20,369	20,762	21,311	21,886	22,118
Total UKATS revenue	689,061	689,120	690,064	679,832	672,767
Operating costs	-342,857	-345,143	-351,168	-358,177	-360,678
DB Pension cash	-75,259	-75,560	-76,327	-70,924	-67,583
DC Pension cash	-4,538	-5,213	-6,038	-6,974	-7,875
Exceptionals (Incl FAS allowance)	-10,030	-7,113	-7,291	-7,781	-7,845
Depreciation	-190,713	-194,355	-191,137	-180,964	-176,883
Backlog adjustment to depreciation	0	0	0	0	0
Regulatory profit	65,665	61,737	58,103	55,012	51,903
Capitalised Financing costs	0	0	0	0	0
Regulatory return	65,665	61,737	58,103	55,012	51,903
Average RAB	1,129,953	1,063,530	1,000,253	949,652	897,596
Regulated rate of return	5.81%	5.80%	5.81%	5.79%	5.78%
Oceanic Regulatory Performance Statement					
Oceanic revenue	26,774	26,437	26,003	25,627	25,231
Other revenue	524	493	498	476	439
Total Oceanic revenue	27,298	26,930	26,501	26,102	25,669
Operating costs	-16,157	-16,397	-16,716	-16,899	-17,017
DB Pension cash	-3,320	-3,379	-3,407	-3,146	-2,995
DC Pension cash	-200	-233	-270	-309	-349
Depreciation	-5,630	-5,154	-4,646	-4,483	-4,522
Regulatory profit	1,991	1,766	1,462	1,265	787
Capitalised Financing costs	0	0	0	0	0
Regulatory return	1,991	1,766	1,462	1,265	787
Average RAB	30,836	28,287	25,411	22,620	19,967
Regulated rate of return	6.46%	6.24%	5.75%	5.59%	3.94%

The table above provides a record of the CAA's projections for RP2 as set out in the NPP and stated at CPI inflation rates assumed in the NPP.

5. MOVEMENTS IN THE REGULATORY ASSET BASES

The definitions and formulae for the rolling forward of the UKATS and Oceanic Regulatory Asset Bases (RABs) are set out in the Regulatory Asset Base (RAB) rules (Annex 4 of the Regulatory Accounting Guidelines).

The regulatory accounts will include the following statements for each of UKATS and Oceanic, with all amounts stated at year-end price levels:

Table 12

UK Air Traffic Services (UKATS)

Calendar Year £ million	2015		
	Actual	CAA's projection	Variance
Opening RAB as at 1 January in opening prices	1,158.8	1,123.5	35.3
<i>The figures below are all at year end prices</i>			
Inflation of opening RAB	14.0	13.5	0.4
Opening balance adjusted for year end prices	1,172.8	1,137.0	35.8
plus CP3 Estimated Rolling Incentive mechanism x RPI growth from 2012/13	28.4	28.0	0.4
plus CP3 RIM adjustment	11.8	-	11.8
minus Estimated Spectrum pass-through x RPI growth from 2012/13 for financial year 2014/15	(0.7)	(0.7)	(0.0)
minus Spectrum pass-through adjustment	(0.0)	-	(0.0)
plus 2015 revenue allowance adjustment for calendar year t x RPI growth from 2012 for calendar year t	0.7	-	0.7
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2012	131.0	133.7	(2.6)
minus Real movements in Working Capital for calendar year t	(39.3)	(46.6)	7.3
minus Allowed Underlying Depreciation for year t x RPI growth from 2012 for calendar year t	(183.9)	(183.9)	-
plus Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2012 for calendar year t	3.9	3.9	-
minus Amortisation of the CP3 Estimated RIM for year t x RPI growth from 2012 for calendar year t	(7.3)	(7.3)	-
plus Defined Benefit Pension Contribution Variance	1.1	-	1.1
plus Capitalised Financing costs for the year	1.1	-	1.1
plus Inflation on CP3 Adjustments	0.5	0.8	(0.3)
Closing RAB as at 31 December	1,120.1	1,064.9	55.2

Table 13

Calendar Year £ million	2015		
	Actual	CAA's projection	Variance
Opening RAB as at 1 January in opening prices	33.2	31.5	1.7
<i>The figures below are all at year end prices</i>			
Inflation of opening RAB	0.4	0.4	0.0
Opening balance adjusted for year end prices	33.6	31.9	1.8
plus CP3 Estimated Rolling Incentive mechanism x RPI growth from 2012/13	-	-	-
plus CP3 RIM adjustment	1.0	-	1.0
plus total capital expenditure for year t, net of grants and customer contributions, x within-year RPI growth from 2012	3.3	2.0	1.3
plus/minus Real movements in Working Capital for calendar year t	0.8	0.4	0.3
minus Allowed Underlying Depreciation for year t x RPI growth from 2012 for calendar year t	(5.3)	(5.3)	-
plus Backlog Adjustments to Allowed Depreciation for year t x RPI growth from 2012 for calendar year t	(0.2)	(0.2)	-
plus Defined Benefit Pension contribution variance for calendar year t	0.7	-	0.7
plus Capitalised Financing costs for the year	0.2	-	0.2
plus Inflation on CP3 Adjustments	0.0		0.0
Other	-	(0.0)	0.0
Closing RAB as at 31 December	34.1	28.8	5.4

Notes

1. The CAA projections are shown in Tables 14 and 15. Further detail is provided in the RAB rules.
2. Capital expenditure for the purpose of this table is expenditure on property, plant and equipment. It includes expenditure on fixed assets that IFRS requires to be classified as either tangible or intangible assets (principally software and assets relating to airspace re-sectorisation projects). It is stated net of proceeds of disposal and grants (except for assistance provided by the Innovation and Networks Executive Agency (INEA) and associated Union assistance programmes

such as the Trans-European transport network (TEN-T), Connecting Europe Facility (CEF) and the Cohesion Fund, where funding is to be returned to airline customers via a specific unit rate reduction). The RAB excludes any NERL capital expenditure on the Height Monitoring Unit as it is remunerated outside the price control as well as customer funded arrangements.

3. The defined benefit pension contribution variance for Oceanic measures the difference between actual cash pension contributions and the amount assumed by the CAA when setting the price control. Section 7.2 records the cumulative pension contribution variance included in the RAB at each year end for these costs which are outside the scope of the European Charging Regulations.
4. Capitalised financing costs for the year in respect of the capital expenditure and pension contribution variances are added to the RAB to enable remuneration in future review periods.
5. Finance leases are capitalised in the RAB based on the IFRS accounting treatment.
6. An adjustment is added to the UKATS and Oceanic RABs in 2015 for the actual out-performance against the rolling incentive mechanism (RIM) during the period 2011-2014 (or Control Period 3, CP3). The RIM was discontinued at the end of RP1.
7. The RAB is reduced by the allowed depreciation assumed in the price control, not by accounting depreciation.
8. In the case of UKATS, the CAA included a backlog adjustment to the amount of depreciation it allowed in setting the price control. This amount adjusts for the difference between the depreciation allowed during CP3/RP1 (including the price profiling adjustment) and what depreciation would have been based on actual capital expenditure in CP3/RP1.
9. Working capital for RAB purposes is defined as debtors and creditors, accruals and prepayments arising from trading (including transactions in respect of attributable fixed assets). It excludes any amounts relating to customer funded deferred income, financing, tax, distributions, pension contributions and any price smoothing debtor.
10. The RAB allows for adjustments relating to the Calendar Year basis of the RABs for RP2 compared with the Financial Year basis used in RP1.
11. A record of closing cumulative capitalised variances is provided below:

Closing Cumulative Capitalised Variances (Year end prices) £ million	2014	2015
UKATS	10.6	19.3
Ocean	1.6	3.4
Total	<u>12.1</u>	<u>22.6</u>

12. Any small differences in these schedules are due to rounding. Given the nature and purpose of these schedules, it is not considered appropriate to eliminate the rounding differences.

CAA Projections of RAB Movements (in outturn prices assumed for the NPP)

Table 14

STATEMENT: CAA RAB Assumptions					
Calendar Year - YE outturn prices					
£ million					
UKATS	2015	2016	2017	2018	2019
Opening RAB	1,137,744	1,100,959	1,026,101	974,405	924,899
Inflation of opening RAB	37,866	35,164	38,818	37,360	34,540
CP3 Estimated Spectrum Pass through	(733)	0	0	0	0
CP3 Estimated RIM	29,003	0	0	0	0
Inflation on CP3 Adjustments	826	0	0	0	0
Net Capital Expenditure	138,418	136,671	119,498	110,726	102,749
Depreciation	(193,937)	(197,598)	(194,389)	(184,103)	(179,853)
Movement in Working Capital	(48,253)	(49,147)	(15,680)	(13,550)	(12,112)
Other	24	51	56	62	68
Closing RAB	1,100,959	1,026,101	974,405	924,899	870,292
Average RAB	1,129,953	1,063,530	1,000,253	949,652	897,596

Table 15

STATEMENT: CAA RAB Assumptions					
Calendar Year - YE outturn prices					
£ million					
Oceanic	2015	2016	2017	2018	2019
Opening RAB	31,907	29,765	26,809	24,012	21,228
Inflation	1,062	951	1,014	921	793
Net Capital Expenditure	2,074	1,323	852	901	1,444
Depreciation	(5,726)	(5,245)	(4,730)	(4,568)	(4,606)
Movement in Working Capital	448	15	68	(38)	(151)
Other	(0)	(0)	(0)	(0)	(0)
Closing RAB	29,765	26,809	24,012	21,228	18,707
Average RAB	30,836	28,287	25,411	22,620	19,967

Notes

1. The tables above provide a record of the CAA's projections for RP2 as set out in the NPP and are stated at RPI inflation rates assumed in the NPP. There will be variations to actual inflation rates used for Tables 12 and 13.

ACTUAL & PROJECTIONS OF RAB MOVEMENTS – Reconciliation of RABs at 1 January 2015 and 31 March 2015

UKATS

Table 16

£ million	UKATS Actual (Note 3)	UKATS RP2 Assessment (Note 4)
RAB as per Regulatory accounts at 31 March 2015	1,151.4	1,113.6
Adjustment to remove RP1 Eurocontrol Pension pass through and capitalised financing cost difference (Note 1)	20.2	0.0
RAB adjusted for RP1 assumed pension pass through as at 31 March 2015 (Note 2)	1,131.2	1,113.6
Inflation of closing RAB	1.8	1.8
CP3 Estimated Capitalised Financing costs for Jan 2015 to Mar 2015 (in 2012/13 prices) x RPI growth from 2012/13 for financial year 14	1.5	1.5
CP3 Estimated Capitalised Financing costs for Apr 2014 to Dec 2014 (in 2012/13 prices) x 2014/15 Apr-Dec calendar year real inflation adjustment	(0.0)	(0.0)
Total Actual Net Capex Jan - Mar 15	(44.6)	(31.7)
Total Actual Net Capex Apr - Dec 14 Inflation adjustment	(0.1)	0.1
Allowed Underlying Depreciation for year t x RPI Growth from 2012 for calendar year t	46.6	46.6
Allowed Underlying Depreciation for year t x RPI Growth from 2012 for calendar year t	(0.2)	(0.2)
Backlog Adjustments to Allowed Depreciation for year t x RPI Growth from 2012 for calendar year t	(1.2)	(1.2)
Backlog Adjustments to Allowed Depreciation for year t x RPI Growth from 2012 for calendar year t	0.0	0.0
CP3 Estimated Pension contribution variance for Jan 2015 to Mar 2015 (in 2012/13 prices) x RPI Growth from 2012/13	(0.8)	(0.8)
CP3 Estimated Pension contribution variance for Apr 2014 to Dec 2014 (in 2012/13 prices) x 2014/15 Apr-Dec calendar year real inflation adjustment	0.0	0.0
13/14 & CP3 Pension pass through adjustment for Jan-Mar 15 in (2014/15 year end prices)	0.8	(0.0)
13/14 & CP3 Pension pass through adjustment Apr 2014 to Dec 2014 (in 2014/15 prices) x ([Dec 2014 CHAW RPI index / Mar 2015 CHAW RPI index] - 1)	0.0	(0.0)
Real Movement in Working Capital for calendar year t	9.8	(6.3)
Capitalised Financing costs for calendar year t	(0.1)	0.0
RP1 Cumulative DB pension exempt cost adjustment incl CFC's in Dec 2014 prices (net of non-Eurocontrol Share)	14.2	0.0
Closing forecast RAB as at 1st January 2015	1,158.8	1,123.5

OCEANIC

Table 17

£ million	Oceanic Actual (Note 3)	Oceanic RP2 Assessment (Note 4)
RAB as per Regulatory accounts at 31 March 2015	32.8	31.4
Adjustment to remove Pension pass through and capitalised financing cost difference (Note 1)	0.0	(0.0)
Forecast RAB balance as at 31 March 2015	32.8	31.4
Inflation of closing RAB	0.0	0.0
CP3 Estimated Capitalised Financing costs for Jan 2015 to Mar 2015 (in 2012/13 prices) x RPI growth from 2012/13 for financial year 14	(0.1)	(0.1)
CP3 Estimated Capitalised Financing costs for Apr 2014 to Dec 2014 (in 2012/13 prices) x 2014/15 Apr-Dec calendar year real inflation adjustment	0.0	0.0
Total Actual Net Capex Jan - Mar 15	(0.6)	(1.2)
Total Actual Net Capex Apr - Dec 14 Inflation adjustment	(0.0)	0.0
Allowed Underlying Depreciation for year t x RPI Growth from 2012 for calendar year t	1.3	1.3
Allowed Underlying Depreciation for year t x RPI Growth from 2012 for calendar year t	(0.0)	(0.0)
Backlog Adjustments to Allowed Depreciation for year t x RPI Growth from 2012 for calendar year t	0.1	0.1
Backlog Adjustments to Allowed Depreciation for year t x RPI Growth from 2012 for calendar year t	(0.0)	(0.0)
CP3 Estimated Pension contribution variance for Jan 2015 to Mar 2015 (in 2012/13 prices) x RPI Growth from 2012/13	(0.1)	(0.1)
CP3 Estimated Pension contribution variance for Apr 2014 to Dec 2014 (in 2012/13 prices) x 2014/15 Apr-Dec calendar year real inflation adjustment	0.0	0.0
Defined Benefit Pension contribution variance for Jan 2015 to Mar 2015 (4h) (in 2014/15 year end prices)	(0.2)	0.0
Defined Benefit Pension contribution variance for Apr 2014 to Dec 2014 (4h) (in 2014/15 year end prices) x ([Dec 2014 CHAW RPI index / Mar 2015 CHAW RPI index] - 1)	(0.0)	0.0
Real Movement in Working Capital for calendar year t	0.0	(0.0)
Capitalised Financing costs for calendar year t	(0.0)	0.0
Closing forecast RAB as at 1st January 2015	33.2	31.5

Notes

1. The above two schedules for the RAB provide a reconciliation of the RABs as at 1 January 2015 and 31 March 2015 in order to establish the RAB for the start of RP2.
2. The RAB is rolled back from the RP2 position at 31 March 2015 to the position at 1 January 2015 as defined in the RAB rules.
3. The first column "Actual" reflects the final position based on audited accounts.
4. The second column "RP2 Assessment" reflects the original estimate which went into the RP2 settlement to establish the estimated position at 1 January 2015.
5. The difference between the actual reported position and the position at 1 January 2015 will be carried forward into RP3.

6. FINANCIAL INCENTIVES

Record of Incentives / Service Penalties

The NERL Licence specifies the conditions under which incentives are earned as bonuses or service credits are incurred.

Certain conditions apply to the achievement of the incentive bonuses:

- No penalty is incurred if the FC1 target is improved upon (i.e. lower delay levels).
- The FC2 incentive reflects NERL's average delay expressed in minutes per flight. The financial value is subject to weightings and minimums, with penalties attracting a greater weighting.
- The FC3 performance is calculated on a daily basis and is accumulated over the calendar year. This reflects weightings to penalise delays over peak periods. It is modulated to reflect actual flights, rather than the forecast flights as per the Licence.
- The FC4 performance metric relates to excess delays (e.g. mainly caused by equipment and other failures). There are mitigations through a limited number of exemption days (up to 75 for the reference period as a whole), used for new system implementations. These are designated in advance, and through interaction with the FC3 incentive metric, to ensure any penalties are moderated for the same causal event.
- Bonuses/penalties are limited to 1% of revenue generated in the relevant calendar year.

The Flight Efficiency Incentive (F3DI) is based on a % of revenue above or below upper and lower limits. These limits become more stringent over each year of the reference period.

- Bonuses/penalties are limited to 1% of revenue generated in the relevant calendar year.
- Eligibility to earn 3DI bonuses in respect of 2018 and 2019 will be contingent on the successful outcome of the requirements of Licence Condition 10a.

For 2015, NERL's service performance earned a bonus of £4.6m. The bonus reflected average delays per flight (which were 76% below the par value), generating £1.6m of FC2 bonus, and the delay impact score (77% below the target score), which generated £3.0m of FC3 bonus.

In total 99.8% of flights were not delayed by a NATS cause (2014: 99.8%).

Table 18

Financial Incentives - Eurocontrol	FC1	FC2	FC3	FC4	F3DI	Total
Calendar Year 2015		Average Delay per Flight	Delay impact (score)	Delay variability (score)	Average 3DI (score)	
Par Values (initial)	FAB delay (mins)	(mins)		40 to 80 (Nov-Mar), otherwise		
	0.25	0.17	16 to 24	60-110 ¹	28.2 to 31.2	
Actual achieved	0.08	0.04	5.20	14.20	30.1	
£ million (SU basis)		1.6	3.0	N/A	0.0	4.6
£ million (TSU basis)						4.7

¹ Subject to exemption days for major changes being introduced into operations

7. RAB ADJUSTMENTS AND POTENTIAL CLAWBACKS

7.1 Gearing Restrictions and Tax Claw back

1. The Licence imposes certain restrictions on NERL's gearing, which is defined as the Financial Indebtedness of the Licensee and related undertakings divided by the value of the combined NERL RABs ,expressed as a percentage, calculated at 31 March and 30 September of each year.
2. NERL's gearing is capped at 65%, which if breached at a measurement date or by NERL's best estimate over the next four measurement dates, requires certain consents and rectification plans to be put in place together with a lock up of dividends and other restrictions on transactions with affiliates.
3. NERL has targeted a gearing of 60% for RP2.
4. Licence condition 26 requires NERL to provide :
 - the actual gearing within 25 days of the measurement date
 - NERL's best estimate of gearing on each of the four subsequent measurement dates.
 - Confirmation that it is not aware of any circumstances that will result in gearing being above 65%
 - Provide from time to time its best estimate of gearing over the period from 1 April 2015 to 31 March 2020 as a whole (on a simple arithmetic average)
 - An explanation of the difference between the expected average gearing for the period to 31 March 2020 and the target gearing of 60%.
5. The methodology for the tax claw back calculation takes the following steps:
 - Step 1: Compare actual gearing to the target level of gearing of 60%. Gearing is defined and measured as set out in Condition 5 of the licence. If the simple average of actual gearing for the control period is lower or equal to the target gearing, then no claw back applies. If it is higher, then proceed to step 2.
 - Step 2: Compare actual interest to modelled interest. If actual interest costs used in the calculation of actual tax are lower or equal to the costs used to estimate the tax charge in the price decision, then no claw back applies. If they are higher, then proceed to step 3.
 - Step 3: The excess relief is calculated as actual interest less modelled interest. This is then multiplied by the statutory corporation tax rate used in the price determination, and uplifted by the RP2 cost of capital to reflect the time value of money. The resulting claw back adjustment is to be included in the opening RP3 RAB. The tax claw back is then apportioned to the UKATS and Oceanic RABs in proportion to the estimated opening RAB values at the start of RP3 broadly to reflect the relative size of the two businesses.

6. In calculating the tax uplift for RP3, the reduction in revenue (and the tax thereon) arising from the tax claw back should be excluded from the calculation.
7. For the purpose of this calculation, the RPI measure of inflation is to be used.
8. In the event that NERL's financial year changes from 31 March to 31 December during RP2, NERL will approach CAA to discuss any necessary changes to methodology to enable the claw back to remain consistent with the current approach, however being expressed on a calendar year basis. This could include moving the date any potential claw back is deducted from the RAB to 1 January 2020.

Table 19

STATEMENT: Tax Claw back adjustment											
UKATS & Oceanic	2015/16		2016/17		2017/18		2018/19		2019/20		
	At 30th Sept	At 31st March	At 30th Sept	At 31st March	At 30th Sept	At 31st March	At 30th Sept	At 31st March	At 30th Sept	At 31st March	
Gearing assumption for RP2	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%	60.0%
Actual Gearing	51.2%	49.0%									

Notes:

1. Tax rates applying to the tax claw back calculation are 20% for the years 2015/16 to 2019/20 respectively.
2. Actual gearing for 2015/16 is below the RP2 assumed levels, therefore no claw back is required.

7.2 Closing Cumulative Pension Contribution Variance (Adjustments through the RAB)

The pension costs in the table below are outside the scope of the European Charging Regulations and apply to the Oceanic Business.

Table 20

Pension Costs - Oceanic Calendar Year - Outturn Prices	Actual reported					C\Fwd to next RP
	2015	2016	2017	2018	2019	
£ million						
NPP Assumption	3.3	3.4	3.4	3.1	3.0	
Actual	4.0					
Variance (added to)/deducted from RAB	(0.7)					
Cumulative variance (added to)/deducted from RAB	(0.7)					

Note:

The closing cumulative pension contribution variance is the cumulative value of the pension contribution variances over RP2 (from 1 January 2015), which have been included in the Regulatory Asset Base. At each year end, it is calculated in accordance with the formulae set out in section 8(j) in the RAB rules, and are stated at year end prices.

The closing cumulative pension contribution variance includes the capitalised financing costs relating to the pension contribution variance accrued up to the end of the year. It is therefore slightly higher than the pension contribution variance for the year recorded in the RAB statements above, where the financing cost on both the pension contribution variance and the capital expenditure variance are shown in a separate line item.

8. RECORD OF THE CONSUMER AND RETAIL PRICE INDICES USED IN REGULATORY CALCULATIONS

Table 21

Record of RPI used in Regulatory Accounts

CHAW	2015 CY	2016 CY	2017 CY	2018 CY	2019 CY
NPP Assumption					
Average for year (from 2012)	1.065	1.086	1.119	1.156	1.195
At Year End	260.452	267.385	276.009	285.141	294.863
Actual					
Actual average for year	1.065				
Actual at Year end	260.600				

Record of CPI index used in Regulatory Accounts

FHICP (base 2012 =100)	2015 CY	2016 CY	2017 CY	2018 CY	2019 CY
NPP Assumptions					
NPP forecast (2009 base)	106.489	108.512	110.683	112.896	115.154
Actual					
Actual %	0.0%				
Average for year (2012 basis)	1.041	1.049	1.065	1.084	1.103
At Year End (2012 basis)	1.042	1.055	1.072	1.091	1.111

Note:

The Eurostat Harmonised index of Consumer Prices (HICP) was rebased in 2015 (2015 =100). Actual amounts reported above reflect the index with a 2012 base.

9. RECORD OF TRAFFIC LEVELS COMPARED WITH THE REGULATORY ASSUMPTIONS

9.1 UKATS

Table 22

UK Air Traffic Services (amounts in 000s)						
Calendar Year	Total Service Units		Service Units		Chargeable Service Units	
	NPP assumption	Actual	CAA assumption	Actual	CAA assumption	Actual
2015	10,244	10,154	10,119	10,007	10,110	9,996
2016	10,435		10,310		10,301	
2017	10,583		10,458		10,449	
2018	10,758		10,633		10,629	
2019	10,940		10,815		10,806	

UK Air Traffic Services (amounts in 000s)				
Calendar Year	Chargeable Flights		Terminal	
	NPP assumption	Actual	CAA assumption	Actual
2015	2,294	2,270	885	908
2016	2,339		906	
2017	2,377		922	
2018	2,420		940	
2019	2,465		959	

Notes

- Total Service Units is the basis utilised by Eurocontrol for charging rates and includes military exempt flights, which are separately recovered by Member States. As NERL has a separate contractual arrangement with the military (which is incorporated into single till revenues for the purpose of calculating Eurocontrol charges), an adjustment is made to determined costs in the Eurocontrol charges to reflect the correct unit rates.
- A record is maintained of actual flights handled which are used to modulate service performance targets which determine incentive payments/deductions.

9.2 Oceanic

Table 23

Oceanic		
Calendar Year	Flights (000s)	
	CAA assumption	Actual
2015	412.4	438.1
2016	420.2	
2017	426.1	
2018	432.9	
2019	439.4	

Notes

- Oceanic flight volumes represent chargeable flights.

10. SCHEDULE OF COSTS EXEMPT FROM COST SHARING

The costs below represent costs exempt from cost sharing per Article 14 of the Charging Regulation 391/2013 that, are reported annually to the CAA and included in Reporting tables. They are stated in calendar year outturn prices. The European Commission will assess the eligibility of these amounts after the end of RP2.

Table 24

10.1 Defined benefit pension costs (UKATS)

Analysis of Costs Exempt from cost sharing : Defined Benefit Pension Scheme					
All amounts in £000s					
UKATS	2015	2016	2017	2018	2019
Payroll used in the National Performance Plan	189,323	186,888	185,637	184,404	182,381
Wage(decrease)/increase	(1,004)				
Actual payroll	188,318				
Actual contribution rate	40.3%				
Actual pension costs resulting from uncontrollable factors	76,368				
Determined costs assumed in the NPP	75,259	75,560	76,327	70,924	67,583
Uncontrollable costs	1,109				
Cumulative Difference:	1,109				

Notes

1. For RP2 the uncontrollable costs methodology per the Charging regulation will apply to all UKATS.
2. The amounts reported in the Table above will be accumulated over RP2, with an adjustment made to unit rates in the second year of RP3, once the values are finalised and agreed with the National Supervisory Authority and the European Commission.

10.2 Spectrum costs

Table 25

Analysis of Costs Exempt from cost sharing : UKATS Spectrum Costs					
All amounts in £000s					
NPP INPUTS					
UKATS	2015	2016	2017	2018	2019
Spectrum Charges assumed in NPP (2012 CY prices)	289	530	869	929	895
Inflated at average CY prices	307				
ACTUAL CASH PAYMENTS					
Actual Spectrum costs (paid to 3rd Parties, exclude internal costs)	293				
Variance:	(14)	0	0	0	0
Uncontrollable cost assessment:					
Impact of estimation:					
Impact of inflation (Controllable)					
Impact of CY conversion (Controllable)	(14)				
Impact of change in legislation (Uncontrollable)					
Annual difference (Uncontrollable only , carried forward)	0				
Cumulative difference (carried forward):	0				

Notes:

- The amounts reported in the Table above will be accumulated over RP2, with an adjustment made to unit rates in the second year of RP3, once the values are finalised and agreed with the European Commission.

11. RECORD OF EUROPEAN FUNDING TO BE OFFSET IN FUTURE PERIODS

11.1 INEA Funding received as Implementing Beneficiaries to the Pilot Common Projects

NERL is a beneficiary to European funding received as part of the Framework Partnership Agreement for the SESAR Deployment Manager as set up under European regulations 409/2013 and 716/2014. Under the regulations NERL is obliged to return these funds as a rebate to the UK unit rates, at a point to be agreed, following individual project completion.

The following principles are expected to apply:

- Funds should be returned on a net present value neutral basis, using NERL's incremental borrowing rate.
- The process for returning funds should be protected from significant currency risks and on a principle of no gain and no loss to NERL.
- An adjustment should be made for the Total Service Units (TSUs) and service Units (SUs) ratio to ensure the full value of the benefit is passed on to customers.
- INEA finance is not included in the Regulatory Asset Base.

Table 26

UKATS INEA Funding	2015	2016	2017	2018	2019	Total
Calendar Year - Outturn Prices						
£ million						
Amounts Received in Euros						
Pre-funding	-	-	-	-	-	-
Interim Payments	-	-	-	-	-	-
Final Payments	-	-	-	-	-	-
Total	-	-	-	-	-	-
Equivalent GBP values						
Pre-funding	-	-	-	-	-	-
Interim Payments	-	-	-	-	-	-
Final Payments	-	-	-	-	-	-
Total	-	-	-	-	-	-
Adjustment for TSUs	-	-	-	-	-	-
Amount to be refunded through Other Revenues in NERL's unit rate	-	-	-	-	-	-
Cumulative amount carried forward	-	-	-	-	-	-

Notes:

No project implementation funds from INEA were received in 2015. In January 2016 NERL received €14.1m in respect of pre-funding (40%) from the SESAR Deployment Manager for its projects as set out in the INEA grant funding agreement. NERL is awaiting further guidance from the Single Sky Committee working group on economic aspects to clarify how these funds should be distributed in the future.

